

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Mount Morris	County Genesee
Fiscal Year End 3/31/2007	Opinion Date Sep. 7, 2007	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

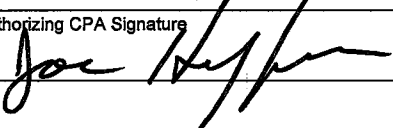
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Plante & Moran		Telephone Number (810) 766-6005	
Street Address 111 E. Court Street, Suite 1A		City Flint	State MI
Authorizing CPA Signature 		Printed Name Joseph C. Heffernan	Zip 48502
		License Number 1101012480	

Charter Township of Mount Morris Genesee County, Michigan

**Financial Report
with Supplemental Information
March 31, 2007**

Charter Township of Mount Morris

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Independent Auditor's Report

To the Township Board
Charter Township of Mount Morris
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mount Morris (the "Township") as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Mount Morris' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mount Morris as of March 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Township Council
Charter Township of Mount Morris

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Mount Morris' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 7, 2007

Charter Township of Mount Morris

Management's Discussion and Analysis

Our discussion and analysis of the Township of Mount Morris' (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2007:

- Overall revenue sources increased from prior year by approximately 2.9 percent. Overall, increases in operating grants and contributions, investment earnings, and other revenue were partially offset by the decreases in the revenue from charges for services and state revenue sharing. The decrease in state revenue sharing was attributable to the reductions in spending at the state level.
- To combat the continuing decrease key in revenue sources, the Township closely monitored its spending this year; as a result, total expenditures increased only 0.9 percent even with large increases in pension costs and health care.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to prior years:

	2005	2006	2007	Change	Percent
Assets					
Current assets	\$ 3,918,739	\$ 3,940,094	\$ 4,054,321	\$ 114,227	2.9
Noncurrent assets	<u>3,823,081</u>	<u>3,587,192</u>	<u>3,328,522</u>	<u>(258,670)</u>	(7.2)
Total assets	7,741,820	7,527,286	7,382,843	(144,443)	(1.9)
Liabilities					
Current liabilities	866,790	606,128	609,735	3,607	0.6
Long-term liabilities	<u>412,129</u>	<u>538,493</u>	<u>327,065</u>	<u>(211,428)</u>	(39.3)
Total liabilities	<u>1,278,919</u>	<u>1,144,621</u>	<u>936,800</u>	<u>(207,821)</u>	(18.2)
Net Assets					
Invested in capital assets -					
Net of related debt	3,334,374	3,208,447	3,077,016	(131,431)	(4.1)
Restricted	316,871	355,967	482,202	126,235	35.5
Unrestricted	<u>2,811,656</u>	<u>2,818,251</u>	<u>2,886,825</u>	<u>68,574</u>	2.4
Total net assets	<u>\$ 6,462,901</u>	<u>\$ 6,382,665</u>	<u>\$ 6,446,043</u>	<u>\$ 63,378</u>	1.0

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

	2005	2006	2007	Change	Percent Change
Revenue					
Program revenue:					
Charges for services	\$ 981,519	\$ 919,291	\$ 842,002	\$ (77,289)	(8.4)
Operating grants and contributions	266,356	121,547	269,760	148,213	121.9
General revenue:					
Property taxes	3,568,797	3,454,611	3,508,977	54,366	1.6
State-shared revenue	2,443,487	2,343,928	2,310,465	(33,463)	(1.4)
Investment earnings	21,467	54,146	83,979	29,833	55.1
Franchise fees	210,455	208,069	210,611	2,542	1.2
Other revenue (loss)	13,801	(52,382)	29,121	81,503	155.6
Total revenue	7,505,882	7,049,210	7,254,915	205,705	2.9
Program Expenses					
General government	1,752,962	1,824,897	1,815,901	(8,996)	(0.5)
Police and fire	4,382,320	4,526,778	4,486,100	(40,678)	0.9
Building inspection	246,245	250,679	259,756	9,077	(3.6)
Public services	512,308	425,492	530,130	104,638	(24.6)
Community assistance	2,486	14,277	10,331	(3,946)	27.6
Planning and zoning	16,498	15,179	16,324	1,145	(7.5)
Senior activities	63,386	66,404	69,168	2,764	(4.2)
Interest on long-term debt	21,759	5,740	3,827	(1,913)	33.3
Total program expenses	6,997,964	7,129,446	7,191,537	62,091	(0.9)
Change in Net Assets	\$ 507,918	\$ (80,236)	\$ 63,378	\$ 143,614	179.0

The governmental net assets increased 1.0 percent from a year ago - increasing from approximately \$6,383,000 to \$6,446,000. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$68,600. This represents an increase of approximately 2.4 percent. The current level of unrestricted net assets for our governmental activities stands at approximately \$2,887,000, or about 40 percent of expenditures. The net capital asset decrease was slightly offset by principal debt payments lowering the amount of outstanding liabilities; as a result, the net assets invested in capital assets (net of related debt) decreased by approximately \$131,000.

The increase in total net assets was mainly due to the combined increase in investment earnings and other income which was generated by less of a loss on the sale of fixed assets and more fire run fees. This revenue increase, combined with the control on spending increases, led to the overall increase in net assets of approximately \$63,000. The operating grant and contribution increase was attributable to the Community Development Block Grant program passed through Genesee County and was fully absorbed by increased costs related to this program. Overall, the expenses were contained to only a 0.9 percent increase, despite continued pressure on fringe benefit costs, and an \$87,000 increase in roads and drains expense.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund and the Refuse Collection Fund. System revenues are primarily from fees paid by customers based on use. The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior years:

	2005	2006	2007	Change	Percent
Assets					
Current assets	\$ 7,327,597	\$ 7,092,924	\$ 6,599,825	\$ (493,099)	(7.0)
Noncurrent assets	16,066,153	15,737,936	15,407,819	(330,117)	(2.1)
Total assets	23,393,750	22,830,860	22,007,644	(823,216)	(3.6)
Liabilities					
Current liabilities	1,490,556	1,536,813	1,233,814	(302,999)	(19.7)
Long-term liabilities	4,032,332	3,638,666	3,335,000	(303,666)	(8.3)
Total liabilities	5,522,888	5,175,479	4,568,814	(606,665)	(11.7)
Net Assets					
Invested in capital assets -					
Net of related debt	11,505,155	11,520,604	11,769,153	248,549	2.2
Restricted	1,039	1,039	1,039	-	-
Unrestricted (deficit)	6,364,668	6,133,738	5,668,638	(465,100)	(7.6)
Total net assets	<u>\$ 17,870,862</u>	<u>\$ 17,655,381</u>	<u>\$ 17,438,830</u>	<u>\$ (216,551)</u>	<u>(1.2)</u>
	2005	2006	2007	Change	Percent
Charges for services	\$ 2,972,359	\$ 2,953,988	\$ 3,023,573	\$ 69,585	2.4
Operating expenses other than depreciation	(2,929,514)	(2,960,232)	(3,012,841)	(52,609)	1.8
Depreciation	(330,117)	(328,216)	(330,117)	(1,901)	0.6
Operating loss	(287,272)	(334,460)	(319,385)	15,075	(4.5)
Interest income	87,469	203,049	233,167	30,118	14.8
Interest expense	(273,565)	(228,995)	(168,083)	60,912	(26.6)
Capital contributions	64,410	144,925	37,750	(107,175)	(74.0)
Change in Net Assets	<u>\$ (408,958)</u>	<u>\$ (215,481)</u>	<u>\$ (216,551)</u>	<u>\$ (1,070)</u>	<u>(0.5)</u>

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

The business-type activities net assets decreased approximately 1.2 percent from a year ago - decreasing from approximately \$17,665,000 to \$17,439,000. Noncurrent assets did decrease by approximately \$330,000 mainly due to noncash depreciation expense exceeding the amount of capital outlay in the current year. However, this net capital asset decrease was offset by routine debt payments lowering the amount of outstanding liabilities at a greater rate. In sum, total assets decreased at a greater rate than the overall liability decrease mainly due to the business-type activities having to use up cash reserves in the current year to finance the loss in both the Water and Sewer Fund and the Refuse Fund.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by approximately \$465,000 for the business-type activities. This represents a decrease of approximately 7.6 percent. The current level of unrestricted net assets for our business-type activities stands at approximately \$5,669,000, which is a healthy level.

The decrease in net assets is part of a long-term trend in which the Township will ultimately need to increase its rates. The cost structure from the county has increased significantly over the last five years, and the Township is allowing its healthy financial position (the \$5,669,000 of unrestricted net assets discussed above) to absorb some portion of the necessary rate increase. This has been the main reason for the continued loss each year within the business-type funds. Over the next 5 to 10 years, the Township will attempt to balance its Enterprise Fund revenues with the associated expenses. During the current year, charges for services increased by approximately \$70,000. Overall expenses decreased by about \$6,000 during the year. Decreases in expenses were led by an approximate \$61,000 decrease in interest expense related to debt of the fund. This decrease was offset by an approximate \$53,000 increase in operational expenses due to cost increases passed on by Genesee County.

The Township's Funds

Our analysis of the Township's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2007 include the General Fund, the Police Fund, and the Fire Fund.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the Township's administrative governmental services including the supervisor, treasurer, and clerk's offices. The Police and Fire Funds record the majority of the revenues and expenditures related to the Township's public safety activities. These two services are partially supported by special police and fire operation millages which provide approximately 37 percent of the operating expenses of the Police Fund and 77 percent of the operating expenses of the Fire Fund. Transfer of funds from the General Fund, grant income, fines and forfeitures, and other income provide the remaining funds to cover expenditures recorded in the Police and Fire Funds. Total operating expenditures of the Police Fund and Fire Fund in 2007 were approximately \$3.6 million and \$736,000, respectively. Combined, police and fire account for approximately 61 percent of total governmental expenses.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was an increase in the transfer of funds to the Fire Fund. The General Fund departments overall stayed below the amended budget, resulting in total revenue less than expenditures by only approximately \$3,000.

Capital Asset and Debt Administration

At the end of 2007, the Township had approximately \$18,736,000 invested in a broad range of net capital assets, including buildings, police and fire equipment, and water and sewer lines. Investments in technology, protective equipment, and other public safety items were made throughout 2007 to improve the operations of the police and fire departments.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the close monitoring of expenses. However, any reduction in state revenue sharing would have a negative impact on this upcoming year's income. Because of this impact and the impact of Proposal A, the Township needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Charter Township of Mount Morris

Statement of Net Assets March 31, 2007

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 2,577,251	\$ 5,362,358	\$ 7,939,609
Receivables:			
Taxes	980,554	-	980,554
Customer	-	979,876	979,876
Due from other governmental units	478,342	-	478,342
Other	54,769	-	54,769
Internal balances	(211,853)	211,853	-
Inventories	7,531	-	7,531
Prepaid costs and other assets	167,727	44,699	212,426
Restricted assets (Note 4)	-	1,039	1,039
Capital assets - Net (Note 5):			
Nondepreciable	200,324	-	200,324
Depreciable	3,128,198	15,407,819	18,536,017
Total assets	7,382,843	22,007,644	29,390,487
Liabilities			
Bank overdraft (Note 3)	19,629	-	19,629
Accounts payable	87,527	392,384	479,911
Accrued and other liabilities	86,541	7,031	93,572
Due to other governmental units	161,266	-	161,266
Deferred revenue (Note 6)	-	530,733	530,733
Noncurrent liabilities (Note 8):			
Due within one year	254,772	303,666	558,438
Due in more than one year	327,065	3,335,000	3,662,065
Total liabilities	936,800	4,568,814	5,505,614
Net Assets			
Invested in capital assets - Net of related debt	3,077,016	11,769,153	14,846,169
Restricted:			
Housing commission	94,915	-	94,915
Building permits	42,533	-	42,533
Drug law enforcement	49,355	-	49,355
Hughes 20 debt service	11,852	-	11,852
Police	183,409	-	183,409
Fire	100,138	-	100,138
Water and sewer construction	-	1,039	1,039
Unrestricted	2,886,825	5,668,638	8,555,463
Total net assets	\$ 6,446,043	\$ 17,438,830	\$ 23,884,873

Charter Township of Mount Morris

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,815,901	\$ 380,865	\$ -	\$ -
Police and fire	4,486,100	352,063	73,928	-
Building inspections	259,756	70,911	-	-
Public services (roads, street lights, etc.)	530,130	38,163	-	-
Community assistance (CDBG and housing)	10,331	-	195,832	-
Planning and zoning	16,324	-	-	-
Senior activities	69,168	-	-	-
Interest on long-term debt	3,827	-	-	-
Total governmental activities	7,191,537	842,002	269,760	-
Business-type activities:				
Water and sewer	2,711,520	2,226,823	-	37,750
Refuse	799,521	796,750	-	-
Total business-type activities	3,511,041	3,023,573	-	37,750
Total primary government	<u>\$ 10,702,578</u>	<u>\$ 3,865,575</u>	<u>\$ 269,760</u>	<u>\$ 37,750</u>
General revenues:				
Property taxes				
State-shared revenues				
Investment earnings				
Cable franchise fees				
Miscellaneous				
Special item - Loss on sale of capital assets				
Total general revenues and special item				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended March 31, 2007

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (1,435,036)	\$ -	\$ (1,435,036)
(4,060,109)	-	(4,060,109)
(188,845)	-	(188,845)
(491,967)	-	(491,967)
185,501	-	185,501
(16,324)	-	(16,324)
(69,168)	-	(69,168)
(3,827)	-	(3,827)
(6,079,775)	-	(6,079,775)
-	(446,947)	(446,947)
-	(2,771)	(2,771)
-	(449,718)	(449,718)
(6,079,775)	(449,718)	(6,529,493)
3,508,977	-	3,508,977
2,310,465	-	2,310,465
83,979	233,167	317,146
210,611	-	210,611
49,536	-	49,536
(20,415)	-	(20,415)
6,143,153	233,167	6,376,320
63,378	(216,551)	(153,173)
6,382,665	17,655,381	24,038,046
<u>\$ 6,446,043</u>	<u>\$ 17,438,830</u>	<u>\$ 23,884,873</u>

Charter Township of Mount Morris

Governmental Funds Balance Sheet March 31, 2007

	General Fund	Police Fund	Fire Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 2,331,981	\$ 33,603	\$ 4,191	\$ 207,476	\$ 2,577,251
Receivables:					
Property taxes	980,554	-	-	-	980,554
Other governmental units	318,504	-	-	-	318,504
Other	-	25,158	37	29,574	54,769
Prepaid costs and other assets	138,330	-	-	29,397	167,727
Due from other funds (Note 7)	-	200,944	104,824	3,134	308,902
Inventories	7,531	-	-	-	7,531
Total assets	<u>\$ 3,776,900</u>	<u>\$ 259,705</u>	<u>\$ 109,052</u>	<u>\$ 269,581</u>	<u>\$ 4,415,238</u>
Liabilities and Fund Balances					
Liabilities					
Bank overdrafts (Note 3)	\$ -	\$ -	\$ -	\$ 19,629	\$ 19,629
Accounts payable	47,966	16,601	5,073	17,887	87,527
Accrued and other liabilities	19,169	59,695	3,841	3,836	86,541
Due to other governmental units	161,266	-	-	-	161,266
Due to other funds (Note 7)	520,755	-	-	-	520,755
Deferred revenue (Note 6)	-	-	-	29,574	29,574
Total liabilities	749,156	76,296	8,914	70,926	905,292
Fund Balances					
Reserved for:					
Prepaid insurance policies	138,330	-	-	1,050	139,380
Inventory	7,531	-	-	-	7,531
Unreserved, reported in:					
General Fund	2,881,883	-	-	-	2,881,883
Debt Service Fund	-	-	-	11,852	11,852
Special Revenue Funds	-	183,409	100,138	185,753	469,300
Total fund balances	<u>3,027,744</u>	<u>183,409</u>	<u>100,138</u>	<u>198,655</u>	<u>3,509,946</u>
Total liabilities and fund balances	<u>\$ 3,776,900</u>	<u>\$ 259,705</u>	<u>\$ 109,052</u>	<u>\$ 269,581</u>	<u>\$ 4,415,238</u>

Charter Township of Mount Morris

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets March 31, 2007

Fund Balance - Total Governmental Funds \$ 3,509,946

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 3,328,522

State of Michigan receivable not collected within 60 days of year end and is not available to pay for current year expenditures 159,838

Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures 10,858

Grant receivables are not expected to be collected within 60 days of year end and are not available to pay for current year expenditures 18,716

Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds (581,837)

Net Assets - Governmental Activities \$ 6,446,043

Charter Township of Mount Morris

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2007

	General Fund	Police Fund	Fire Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 1,279,863	\$ 1,317,699	\$ 567,889	\$ 10,717	\$ 3,176,168
Licenses and permits	60,408	-	-	70,899	131,307
Federal grants	200,366	70,963	-	-	271,329
State-shared revenues and state grants	2,304,839	126,185	-	-	2,431,024
Local sources	6,428	-	11,568	-	17,996
Special assessment revenue	229,916	-	-	-	229,916
Charges for services	349,931	-	-	-	349,931
Cable franchise fees	210,611	-	-	-	210,611
Fines and forfeitures	-	107,257	-	-	107,257
Interest and rentals	104,260	-	-	4,665	108,925
Other	58,249	39,303	57,103	26,913	181,568
Total revenue	4,804,871	1,661,407	636,560	113,194	7,216,032
Transfers In (Note 7)	-	1,972,000	155,000	221,100	2,348,100
Total revenue and transfers in	4,804,871	3,633,407	791,560	334,294	9,564,132
Expenditures					
Current:					
General government	1,870,102	-	-	-	1,870,102
Police and fire	-	3,579,837	736,325	17,827	4,333,989
Building inspections	-	-	-	259,756	259,756
Public services (roads, street lights, etc.)	358,881	-	-	-	358,881
Community assistance (CDBG and housing)	10,000	-	-	4,856	14,856
Planning and zoning	16,324	-	-	-	16,324
Senior activities	60,708	-	-	-	60,708
Debt service	143,349	-	-	34,425	177,774
Total expenditures	2,459,364	3,579,837	736,325	316,864	7,092,390
Transfers Out (Note 7)	2,348,100	-	-	-	2,348,100
Total expenditures and transfers out	4,807,464	3,579,837	736,325	316,864	9,440,490
Net Change in Fund Balances	(2,593)	53,570	55,235	17,430	123,642
Fund Balances - Beginning of year	3,030,337	129,839	44,903	181,225	3,386,304
Fund Balances - End of year	<u>\$ 3,027,744</u>	<u>\$ 183,409</u>	<u>\$ 100,138</u>	<u>\$ 198,655</u>	<u>\$ 3,509,946</u>

Charter Township of Mount Morris

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended March 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 123,642
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	93,418
Depreciation	(318,779)
Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in sale of capital assets	(33,310)
Payment of personal property tax utility multiplier liability was recorded in the statement of activities but was not recorded within the governmental funds	86,729
Special assessment revenues are recorded in the statement of activities when the assessment is set; financial resources in the statement of activities were provided in the prior year and in the current year for the governmental funds due to not being collected within 60 days of year end during the prior year	(10,076)
Grant revenues reported in the statement of activities, when qualifying grant expenditures incurred, provided financial resources in the statement of activities in the prior year and in the current year for the governmental funds due to not being collected within 60 days of year end during the prior year	(4,535)
State-shared revenue reported in the statement of activities that provided financial resources in the statement of activities in the prior year and in the current year for the governmental funds due to not being collected within 60 days of year end during the prior year	5,626
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	127,241
Change in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	(6,578)
Change in Net Assets of Governmental Activities	<u>\$ 63,378</u>

Charter Township of Mount Morris

Proprietary Funds Statement of Net Assets March 31, 2007

	Water and Sewer	Refuse Collection	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 4,876,381	\$ 485,977	\$ 5,362,358
Customer receivables	979,876	-	979,876
Due from other funds (Note 7)	43,853	168,000	211,853
Other assets	44,699	-	44,699
Total current assets	5,944,809	653,977	6,598,786
Noncurrent assets:			
Capital assets (Note 5)	15,407,819	-	15,407,819
Restricted assets - Held at Genesee County (Note 4)	1,039	-	1,039
Total noncurrent assets	15,408,858	-	15,408,858
Total assets	21,353,667	653,977	22,007,644
Liabilities			
Current liabilities:			
Accounts payable	392,384	-	392,384
Accrued and other liabilities	7,031	-	7,031
Current portion of long-term debt (Note 8)	303,666	-	303,666
Deferred revenue (Note 6)	-	530,733	530,733
Total current liabilities	703,081	530,733	1,233,814
Noncurrent liabilities - Long-term debt - Net of current portion (Note 8)	3,335,000	-	3,335,000
Total liabilities	4,038,081	530,733	4,568,814
Net Assets			
Investment in capital assets - Net of related debt	11,769,153	-	11,769,153
Restricted for water and sewer construction projects	1,039	-	1,039
Unrestricted	5,545,394	123,244	5,668,638
Total net assets	\$ 17,315,586	\$ 123,244	\$ 17,438,830

Charter Township of Mount Morris

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2007

	Water and Sewer	Refuse Collection	Total
Operating Revenue			
User charges	\$ 2,147,447	\$ 796,750	\$ 2,944,197
Interest and penalty charges	11,068	-	11,068
Other charges for services	68,308	-	68,308
	<hr/>	<hr/>	<hr/>
Total operating revenue	2,226,823	796,750	3,023,573
Operating Expenses			
Cost of water produced/purchased	973,133	-	973,133
Cost of sewage treatment	736,578	-	736,578
Refuse pickup contract	-	799,521	799,521
Operation and maintenance	198,837	-	198,837
Billing and administrative costs	304,772	-	304,772
Depreciation	330,117	-	330,117
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,543,437	799,521	3,342,958
Operating Loss	(316,614)	(2,771)	(319,385)
Nonoperating Revenue (Expense)			
Investment income	221,329	11,838	233,167
Interest expense	(168,083)	-	(168,083)
	<hr/>	<hr/>	<hr/>
Gain (Loss) - Before contributions	(263,368)	9,067	(254,301)
Capital Contributions - Tap-in fees	37,750	-	37,750
	<hr/>	<hr/>	<hr/>
Change in Net Assets	(225,618)	9,067	(216,551)
Net Assets - Beginning of year	17,541,204	114,177	17,655,381
	<hr/>	<hr/>	<hr/>
Net Assets - End of year	<u>\$ 17,315,586</u>	<u>\$ 123,244</u>	<u>\$ 17,438,830</u>

Charter Township of Mount Morris

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2007

	Water and Sewer	Refuse Collection	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,242,017	\$ 796,750	\$ 3,038,767
Payments to suppliers	(1,741,028)	(812,622)	(2,553,650)
Payments to employees	(506,433)	-	(506,433)
Net cash used in operating activities	(5,444)	(15,872)	(21,316)
Cash Flows from Capital and Related Financing Activities			
Tap-in fees	37,750	-	37,750
Principal and interest paid on capital debt	(746,749)	-	(746,749)
Net cash used in capital and related financing activities	(708,999)	-	(708,999)
Cash Flows from Investing Activities			
Interest received on investments	221,329	11,838	233,167
Proceeds from sale of investments	1,223,794	-	1,223,794
Net cash provided by investing activities	1,445,123	11,838	1,456,961
Net Increase (Decrease) in Cash and Cash Equivalents	730,680	(4,034)	726,646
Cash and Cash Equivalents - Beginning of year	1,616,696	490,011	2,106,707
Cash and Cash Equivalents - End of year	\$ 2,347,376	\$ 485,977	\$ 2,833,353
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 4,876,381	\$ 485,977	\$ 5,362,358
Restricted investments	1,039	-	1,039
Less amounts classified as investments	(2,530,044)	-	(2,530,044)
Total cash and cash equivalents	\$ 2,347,376	\$ 485,977	\$ 2,833,353
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (316,614)	\$ (2,771)	\$ (319,385)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	330,117	-	330,117
Changes in assets and liabilities:			
Receivables	(125,821)	-	(125,821)
Due from other funds	(6,143)	(13,101)	(19,244)
Other assets	141,015	-	141,015
Accounts payable	(31,317)	-	(31,317)
Due to other funds	-	-	-
Accrued and other liabilities	3,319	-	3,319
Net cash used in operating activities	\$ (5,444)	\$ (15,872)	\$ (21,316)

Noncash Capital and Related Financing Activities - There were no significant noncash investing, capital, or financing activities during the year ended March 31, 2007.

Charter Township of Mount Morris

Fiduciary Funds **Statement of Fiduciary Assets and Liabilities** **March 31, 2007**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 113,033
Receivables - Other	<u>19,105</u>
Total assets	<u><u>\$ 132,138</u></u>
Liabilities	
Accrued and other liabilities	\$ 75,719
Due to other governmental units	<u>56,419</u>
Total liabilities	<u><u>\$ 132,138</u></u>

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Mount Morris (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Mount Morris:

Reporting Entity

The Charter Township of Mount Morris is governed by an elected seven-member board of trustees. There are no component units that are required to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township (primary government). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or segment (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest are susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Police Fund - The Police Fund is where the Township accounts for the financial operations of the police department, including a special property tax millage, and federal and state grants that directly benefit and are solely designated for law enforcement activities.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Fire Fund - The Fire Fund is where the Township accounts for the financial operations of the fire department, including a special property tax millage, and federal grants that directly benefit and are solely designated for fire protection.

The Township reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system. Funding is provided primarily through user charges.

Refuse Collection Fund - The Refuse Collection Fund is used to account for the activities related to the Township's trash collection. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Township's policy is to first apply restricted resources.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue - Properties are assessed as of December 31 of each year. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended March 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Township totaled \$403 million; the detail of the property tax levy is as follows:

Purpose	Millage	Levy
General operating	3.5400	\$ 1,426,000
Police	3.4115	1,374,000
Fire	1.4619	589,000
Total property taxes		<u>\$ 3,389,000</u>

The delinquent real property taxes of the Township are purchased by Genesee County (the "County"). In approximately April or May, the County treasurer reimburses the local unit for delinquent real property taxes through the County revolving fund. If delinquent real taxes cannot be collected by the County, the local unit portion of the tax is invoiced or deducted from the monthly County settlement.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General, Fire, Police, Building, Drug, Housing, Hughes 20, and Refuse Funds is generally allocated to each fund using a weighted average.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets - Genesee County acts on behalf of the Township to issue bonds to finance water and sewer lines. Restricted assets represent the monies held by the County that are to be spent on the Township's behalf for water and sewer line construction, or for repayment of the related bonds.

Capital Assets - Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 years
Infrastructure	20-75 years
Land improvements	20 years
Machinery and equipment	5-20 years
Vehicles	8 years

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or the employee is terminated).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The activity related to construction code fees is recorded in a separate fund, the Building Permit Fund.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated 10 banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 with further restrictions that indicate the Township shall diversify the investments by security type and institution. The Township's policy indicates that no more than 50 percent of the total investment portfolio will be invested in a single security type or with a single financial institution, with the exception of U.S. Treasury securities and authorized investment pools. In addition, the Township's securities purchased will have a maximum maturity of no longer than two years and not more than 50 percent of any fund may be invested in commercial paper at any time.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the Township had \$4,976,416 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$600,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy would indicate to be in compliance with state law limits. This rating must be obtained by not less than two standard rating services. As of year end, the credit quality ratings of equity and debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating
Bank investment pool	\$ 3,390,250	Not rated

Note 4 - Restricted Assets

Restricted assets at March 31, 2007 consist of cash and cash equivalents held at the County. These assets are restricted for construction of the Francis/Webster Roads.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

Governmental Activities	Balance April 1, 2006	Additions	Disposals	Balance March 31, 2007
Capital assets not being depreciated - Land	\$ 200,324	\$ -	\$ -	\$ 200,324
Capital assets being depreciated:				
Buildings	3,574,157	-	-	3,574,157
Infrastructure	639,474	-	-	639,474
Land improvements	165,690	-	-	165,690
Machinery and equipment	405,439	49,141	-	454,580
Vehicles	2,118,502	44,277	(59,736)	2,103,043
Subtotal	6,903,262	93,418	(59,736)	6,936,944
Accumulated depreciation:				
Buildings	1,329,858	72,028	-	1,401,886
Infrastructure	437,157	26,775	-	463,932
Land improvements	104,705	7,759	-	112,464
Machinery and equipment	232,344	45,403	-	277,747
Vehicles	1,412,330	166,814	(26,427)	1,552,717
Subtotal	3,516,394	318,779	(26,427)	3,808,746
Net capital assets being depreciated	3,386,868	(225,361)	(33,309)	3,128,198
Net capital assets	<u>\$ 3,587,192</u>	<u>\$ (225,361)</u>	<u>\$ (33,309)</u>	<u>\$ 3,328,522</u>

A summary of business-type fixed assets at March 31, 2007 was as follows:

Business-type Activities	Balance April 1, 2006	Additions	Disposals	Balance March 31, 2007
Capital assets being depreciated:				
Sanitary sewer system	\$ 17,073,017	\$ -	\$ -	\$ 17,073,017
Water utility system	6,150,039	-	-	6,150,039
Office equipment	6,168	-	-	6,168
Subtotal	23,229,224	-	-	23,229,224
Accumulated depreciation:				
Sanitary sewer system	4,764,255	227,600	-	4,991,855
Water utility system	2,720,865	102,517	-	2,823,382
Office equipment	6,168	-	-	6,168
Subtotal	7,491,288	330,117	-	7,821,405
Net capital assets	<u>\$ 15,737,936</u>	<u>\$ (330,117)</u>	<u>\$ -</u>	<u>\$ 15,407,819</u>

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 5 - Capital Assets (Continued)

Depreciation was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 53,271
Public safety	229,148
Public works	27,900
Recreation and culture	<u>8,460</u>
Total governmental activities	<u>\$ 318,779</u>

Business-type activities:

Water utility	\$ 102,517
Sanitary sewer	<u>227,600</u>
Total business-type activities	<u>\$ 330,117</u>

Note 6 - Deferred Revenue

Statement of Net Assets - On the statement of net assets, the deferred revenue in the governmental activities represents resources that have been received but not yet earned.

Governmental Funds Balance Sheet - Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Special assessments	\$ 10,858	\$ -	\$ 10,858
Land contract receivable	<u>18,716</u>	<u>-</u>	<u>18,716</u>
Total	<u>\$ 29,574</u>	<u>\$ -</u>	<u>\$ 29,574</u>

In addition, the Refuse Collection Fund reports deferred revenue of \$530,733 related to refuse fees collected in advance of the period to which the service relates.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Police Fund	General Fund	\$ 200,944
Fire Fund	General Fund	104,824
Other nonmajor governmental funds	General Fund	3,134
Sewer Fund	General Fund	43,853
Refuse Fund	General Fund	168,000
Total		<u>\$ 520,755</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Fire Fund	\$ 155,000
General Fund	Building Permits Fund	191,800
General Fund	Police Fund	1,972,000
General Fund	Hughes 20 Fund	29,300
Total		<u>\$ 2,348,100</u>

The transfers from the General Fund to the Police Fund, Fire Fund, Hughes 20 Debt Service Fund, and Building Permits Fund were to assist in paying salary expenses, debt, and other needed appropriations.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 8 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities							
County Contract Obligations:							
Hughes 20 Drainage District Bonds:							
Amount of issue - \$127,560	6.75%	\$25,512	\$ 76,536	\$ -	\$ (25,512)	\$ 51,024	\$ 25,512
Maturing through 2009							
Hughes 20 Drainage Township Share Bonds:							
Amount of issue - \$14,173	6.75%	\$2,835	8,503	-	(2,835)	5,668	2,834
Maturing through 2009							
General Obligations:							
Fire Truck #1 Bond:							
Amount of issue - \$386,940	5.00%	\$36,234-	199,896	-	(78,446)	121,450	80,739
Maturing through 2008		\$80,736					
Special Assessment Obligation Bonds: (2)							
Project #433 Bond:							
Amount of issue - \$9,372	5.08%	\$2,343	4,686	-	(2,343)	2,343	2,343
Maturing through 2008							
Project #435 Bond:	5.08%						
Amount of issue - \$13,638		\$3,410	6,819	-	(3,410)	3,409	3,408
Maturing through 2008							
Project #436 Bond:	5.09%						
Amount of issue - \$14,938		\$2,988	8,962	-	(2,988)	5,974	2,988
Maturing through 2009							
Project #445 Bond:	6.09%						
Amount of issue - \$81,494		\$8,149	73,345	-	(11,707)	61,638	8,149
Maturing through 2015							
Other long-term obligations:							
Accumulated employee benefits (1)			303,753	6,578	-	310,331	128,799
Michigan Tax Tribunals			106,729	20,000	(106,729)	20,000	-
Total governmental activities			789,229	26,578	(233,970)	581,837	254,772

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Business-type Activities (3)							
Genessee County Sanitary Sewage System Bonds:							
2005 Refunding Bonds:							
Amount of issue - \$2,900,000	4.00%	\$15,000-	\$ 2,885,000	\$ -	\$ (25,000)	\$ 2,860,000	\$ 25,000
Maturing through 2019	4.25%	\$315,000					
1999 Sewer Extension Bonds:							
Amount of issue - \$3,800,000	4.95%	\$150,000-	350,000	-	(175,000)	175,000	175,000
Maturing through 2019	5.70%	\$300,000					
#1 Mount Morris Arm Bond:							
Amount of issue - \$825,000	5.00%	\$275,000	275,000	-	(275,000)	-	-
Maturing through 2007							
#2 Southeast Extension Bond:							
Amount of issue - \$14,664	4.00%	\$3,666	7,332	-	(3,666)	3,666	3,666
Maturing through 2008	4.45%						
Genessee County Sewage Disposal System Bonds -							
1996 Sewage Disposal Bonds:							
Amount of issue - \$900,000	0.05%	\$100,000-					
Maturing through 2012		\$150,000	700,000	-	(100,000)	600,000	100,000
Total business-type activities			4,217,332	-	(578,666)	3,638,666	303,666
Total business-type and governmental activities			\$ 5,006,561	\$ 26,578	\$ (812,636)	\$ 4,220,503	\$ 558,438

- (1) Accumulated employee benefits represent the estimated liability to be paid to governmental fund-type employees under the Township's sick and vacation pay policy. Under the Township's policy, employees earn sick and vacation time based on time of service with the Township.
- (2) The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of improvements. At March 31, 2007, the Township has approximately \$11,000 of special assessments receivable in the Hughes 20 Special Assessment Debt Service Fund for repayment of these bonds. These special assessments receivable are due in the future; the amount of receivables delinquent at March 31, 2007 is not significant. Under Michigan law, the Township is secondarily liable for payment of these bonds.
- (3) The Township has pledged its full faith and credit as collateral for the water and sewer county contract obligations.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 8 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 125,973	\$ 3,501	\$ 129,474	\$ 303,666	\$ 299,759	\$ 603,425
2009	80,192	630	80,822	310,000	141,720	451,720
2010	8,149	-	8,149	345,000	128,320	473,320
2011	8,149	-	8,149	355,000	113,270	468,270
2012	8,149	-	8,149	385,000	97,590	482,590
2013-2017	20,894	-	20,894	1,040,000	297,725	1,337,725
2018-2021	-	-	-	900,000	39,375	939,375
Total	<u>\$ 251,506</u>	<u>\$ 4,131</u>	<u>\$ 255,637</u>	<u>\$ 3,638,666</u>	<u>\$ 1,117,759</u>	<u>\$ 4,756,425</u>

In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At March 31, 2007, \$2.7 million of bonds outstanding are considered defeased.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool program for claims relating to workers' compensation, and in the Michigan Townships Participating Plan for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 10 - Defined Benefit Pension Plan

Plan Description

The Township participates in the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires no contribution from the employees.

Annual Pension Cost

For the year ended March 31, 2007, the Township's annual pension cost of \$604,201 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006 and 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 6.51 percent investment rate of return, (b) projected salary increases of 4.50 percent per year, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) postretirement benefit increases of 2.50 percent annually. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The unfunded actuarial liability is being amortized as a level of percentage of payroll over a period of 30 years.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

Three-year Trend Information

	Fiscal Year Ended March 31		
	2005	2006	2007
Annual pension costs (APC)	\$ 505,820	\$ 608,638	\$ 604,201
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Valuation as of December 31		
	2003	2004	2005
Actuarial value of assets	\$ 10,779,206	\$ 11,438,725	\$ 12,173,760
Actuarial accrued liability (AAL)	\$ 14,859,961	\$ 15,968,305	\$ 18,774,360
Unfunded AAL (UAAL)	\$ 4,080,755	\$ 4,529,580	\$ 6,600,600
Funded ratio	73%	72%	65%
Covered payroll	\$ 2,968,677	\$ 2,959,666	\$ 3,003,232
UAAL as a percent of covered payroll	137%	153%	220%

Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Township pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Township's group rates. Currently, 27 retirees are eligible for postemployment health benefits. For the fiscal year ended March 31, 2007, the Township made payments for postemployment health benefit premiums of \$270,328. The Township obtains health care coverage through private insurers.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

Required Supplemental Information

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,365,600	\$ 1,365,600	\$ 1,279,863	\$ (85,737)
Licenses and permits	50,100	50,100	60,408	10,308
Federal grants	100,000	100,000	200,366	100,366
State-shared revenues and grants	2,360,000	2,360,000	2,304,839	(55,161)
Local sources	40,000	40,000	6,428	(33,572)
Special assessment revenue	255,000	255,000	229,916	(25,084)
Charges for services	321,000	321,000	349,931	28,931
Cable franchise fees	210,000	210,000	210,611	611
Interest and rentals	48,000	48,000	104,260	56,260
Other	41,000	41,000	58,249	17,249
Total revenues	4,790,700	4,790,700	4,804,871	14,171
Expenditures				
Current:				
General government	1,855,600	1,946,800	1,870,102	76,698
Public services (roads, street lights, etc.)	367,000	362,000	358,881	3,119
Community assistance (CDBG and housing)	5,000	10,000	10,000	-
Planning and zoning	15,700	15,700	16,324	(624)
Senior activities	60,000	61,000	60,708	292
Debt service	100,000	144,000	143,349	651
Transfers to other funds	2,387,400	2,532,400	2,348,100	184,300
Total expenditures	4,790,700	5,071,900	4,807,464	264,436
Shortfall	\$ -	\$ (281,200)	\$ (2,593)	\$ 278,607

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule Police Fund Year Ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,310,000	\$ 1,310,000	\$ 1,317,699	\$ 7,699
Federal grants	37,800	37,800	70,963	33,163
State grants	110,000	110,000	126,185	16,185
Fines and forfeitures	133,000	133,000	107,257	(25,743)
Other	21,500	21,500	39,303	17,803
Transfer from other funds	<u>2,066,300</u>	<u>2,066,300</u>	<u>1,972,000</u>	<u>(94,300)</u>
Total revenues	3,678,600	3,678,600	3,633,407	(45,193)
Expenditures - Current - Public safety	<u>3,678,600</u>	<u>3,678,600</u>	<u>3,579,837</u>	<u>98,763</u>
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,570</u>	<u>\$ 53,570</u>

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule Fire Fund Year Ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 573,000	\$ 543,000	\$ 567,889	\$ 24,889
Local sources	25,000	25,000	11,568	(13,432)
Other	103,000	33,000	57,103	24,103
Transfer from other funds	<u>155,000</u>	<u>255,000</u>	<u>155,000</u>	<u>(100,000)</u>
Total revenues	856,000	856,000	791,560	(64,440)
Expenditures - Current - Public safety	<u>856,000</u>	<u>856,000</u>	<u>736,325</u>	<u>119,675</u>
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,235</u>	<u>\$ 55,235</u>

Charter Township of Mount Morris

Note to Required Supplemental Information March 31, 2007

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).” All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The annual budget is prepared by the Township supervisor and adopted by the Township board. During the year, the budget was amended in a legally permissible manner.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The budget process is initiated in December. At that time, departments are given prior and current year budget information to review. The budget form includes areas for potential budget suggestions. Once each department completes the forms, they are resubmitted to the Township supervisor to review with each department head. The budget is submitted to the Township board in February by the Township supervisor. After a public hearing, the final budget is adopted by a Township board resolution no later than March 31.
2. The legislative budget is adopted by department and fund on an activity basis. Line item detail is provided as a general guideline. Throughout the year, the board receives requests to amend the activity budget. All amendments must be approved by a vote of the Township board.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Mount Morris incurred no expenditures that were significantly in excess of the amounts budgeted.

Other Supplemental Information

Charter Township of Mount Morris

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2007

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Housing Commission	Building Permits	Drug Law Enforcement	Hughes 20 Debt Service	
Assets					
Cash and investments	\$ 93,865	\$ 46,429	\$ 67,182	\$ -	\$ 207,476
Receivables - Net	18,716	-	-	10,858	29,574
Prepaid costs and other assets	1,050	-	-	28,347	29,397
Due from other funds	-	-	-	3,134	3,134
Total assets	<u>\$ 113,631</u>	<u>\$ 46,429</u>	<u>\$ 67,182</u>	<u>\$ 42,339</u>	<u>\$ 269,581</u>
Liabilities and Fund Balances					
Liabilities					
Bank overdraft	\$ -	\$ -	\$ -	\$ 19,629	\$ 19,629
Accounts payable	-	60	17,827	-	17,887
Accrued and other liabilities	-	3,836	-	-	3,836
Deferred revenue	18,716	-	-	10,858	29,574
Total liabilities	18,716	3,896	17,827	30,487	70,926
Fund Balances					
Reserved for prepaid insurance policies	1,050	-	-	-	1,050
Unreserved	93,865	42,533	49,355	11,852	197,605
Total fund balances	94,915	42,533	49,355	11,852	198,655
Total liabilities and fund balances	<u>\$ 113,631</u>	<u>\$ 46,429</u>	<u>\$ 67,182</u>	<u>\$ 42,339</u>	<u>\$ 269,581</u>

Charter Township of Mount Morris

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2007

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Housing Commission	Building Permits	Drug Law Enforcement	Hughes 20 Debt Service	
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ 10,717	\$ 10,717
Interest income	4,665	-	-	-	4,665
Licenses and permits	-	70,899	-	-	70,899
Other	12,894	12	13,612	395	26,913
Total revenue	17,559	70,911	13,612	11,112	113,194
Expenditures					
Current:					
Public safety department	-	-	17,827	-	17,827
Public works department	4,856	259,756	-	-	264,612
Debt service	-	-	-	34,425	34,425
Total expenditures	4,856	259,756	17,827	34,425	316,864
Excess of Revenue Over (Under) Expenditures	12,703	(188,845)	(4,215)	(23,313)	(203,670)
Other Financing Sources - Transfers in	-	191,800	-	29,300	221,100
Net Change in Fund Balances	12,703	2,955	(4,215)	5,987	17,430
Fund Balances - Beginning of year	82,212	39,578	53,570	5,865	181,225
Fund Balances - End of year	<u>\$ 94,915</u>	<u>\$ 42,533</u>	<u>\$ 49,355</u>	<u>\$ 11,852</u>	<u>\$ 198,655</u>

Charter Township of Mount Morris

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds March 31, 2007

	Tax Collection Fund	Trust and Agency Fund	Total
Assets			
Cash and cash equivalents	\$ -	\$ 113,033	\$ 113,033
Receivables	19,105	-	19,105
Total assets	<u>\$ 19,105</u>	<u>\$ 113,033</u>	<u>\$ 132,138</u>
Liabilities			
Accrued and other liabilities	\$ 3,118	\$ 72,601	\$ 75,719
Due to other governmental units	15,987	40,432	56,419
Total liabilities	<u>\$ 19,105</u>	<u>\$ 113,033</u>	<u>\$ 132,138</u>

September 7, 2007

To the Township Board
Charter Township of Mt. Morris
5447 Bicentennial Drive
Mt. Morris, Michigan 48458

Dear Board Members:

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the financial statements of the Charter Township of Mt. Morris (the "Township"). Specifically, they require us to report internal control issues to you that that may be relatively minor, in order to allow you to evaluate their significance, and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Township as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We do not believe that the following deficiencies constitute material weaknesses.

Segregation of Duties - Strong internal controls attempt to segregate the three duties associated with custody, authorization, and recordkeeping for any transaction. As we have evaluated the potential for individuals to combine these three duties, we find that the Township has, in fact, attempted to allocate those three duties to separate individuals. However, we find that the deputy treasurer position has the ability to gain custody to cash (both in assisting with the closing of the cash receipts drawers and in making wire transfers), authorization (review of cash receipts reports and wire transfer authorization), and recordkeeping (ability to post journal entries, although we realize that standard procedure is for other individuals to post these entries). We believe that there are currently some effective controls in place to monitor journal entry postings by this position. However, we believe the Township would be well served to consider changing its information technology access controls to require a second person to review, approve, or post all journal entries.

Annual General Ledger Closing Process - Currently, the Township utilizes an independent contractor to assist the deputy treasurer in the general ledger process throughout the year. This combination has been an excellent way to obtain expertise in the accrual process, at a relatively low cost. The annual general ledger closing process constitutes a significant additional amount of time at the end of each year, to get ready for the audit and financial statement preparation. As a result, our audit process has generally included some amount of additional investigation and correction of account balances. For the current year audit, we investigated and made one significant adjustment to the accounts payable for the Water and Sewer Fund. The additional time was not very significant and our communication of this matter is solely to bring this to your attention, consistent with the communication requirements discussed above.

Other Internal Control Recommendations - We did note one additional item that we did not consider to be part of the significant deficiencies noted above, but that should be given further consideration and would further enhance the controls over the recordkeeping of cash. We encourage the Township to ensure that bank reconciliations are dated and initialed by the reviewer of the bank reconciliations.

Comments on Your Financial Results - The General Fund's year end fund balance was approximately \$3,028,000, which compares favorably to your target minimum of \$1,452,000 (computed as 75 percent of property tax revenue plus 20 percent of expenditures). When all governmental funds are considered in total, the total fund balance of approximately \$3,510,000 falls just short of the target minimum of \$3,800,000 (using the same formula). This is an improvement from the prior year's measures, and is quite positive, in light of the declining revenues that you (and most other) municipalities are experiencing. We encourage you to read the complete management's discussion and analysis section of the financial statements for a more complete discussion of your finances.

Please keep in mind that beginning on April 1, 2009, new accounting rules will require an actuarial valuation to determine the annual contribution that would be necessary to fund retiree health care costs over a 30-year period. While the accounting rules do not (cannot) require you to make any annual contributions to prefund this obligation, the actuarial valuation will be a significantly large number, and will cause the board to have to debate the merits of funding some or all of the recommended contribution.

Annual Reminder - Reporting Requirements

As a reminder, the Township will need to complete a municipal finance qualifying statement online with the State of Michigan by September 30. The supervisor should have been given a password to use in this process. Please call us if you would like assistance in filling it out.

In addition, because the Township has issued bonds, you have agreed in your bond ordinance to comply with "continuing disclosure" requirements each year. This includes an update of information originally found in your bond official statement, and is due on September 30 also. Please call us if you require any assistance.


We would like to thank you and your staff for the courtesy and cooperation extended to us during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Joseph C. Heffernan



Kathryn J. Kercorian